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CANADA

BUDGET SPEECH

DELIVERED BY

HON. SIR THOMAS WHITE, M.P.

MINISTER OF FINANCE

IN THE

HOUSE OF COMMONS

TUESDAY, APRIL 24,

1917

OTTAWA
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WAYS AND MEANS—THE BUDGET.

Honourable Sir THOMAS WHITE (Minister of Finance) moved:—

That the Speaker do now leave the Chair for the House to go into Committee of Ways and Means.

He said: Mr. Speaker, I avail myself of the opportunity afforded by this motion to make the annual budget statement.

The features of the public finances in which I conceive the House to be chiefly interested at the present time are the relationship between national income and national expenditure and the increase in the national debt. For the first year of the war the revenue from all sources was about $130,000,000. It rose during the second year to $170,000,000. For the year ended March 31 last, I am happy to say, our income will reach $232,000,000, or one hundred million in advance of the fiscal year 1915. In round figures, $134,000,000 of the aggregate was derived from customs, $24,000,000 from excise, and $12,500,000 from the business profits war tax. From this last named tax, which was introduced by the Budget of last year, we estimated that we should receive $25,000,000 during the three years of its currency. Our experience has proved that this estimate will be largely exceeded. This tax was retroactive, being levied in respect of business accounting periods ending subsequently to December 31, 1914. The

profits of the first accounting period of businesses subject to the tax were much affected by the severe depression and dislocation of business incidental to the first months of the war. Nevertheless, from this first period the sum of $12,500,000 has already been collected, and when the full levy is made we expect to have collected in respect of this period as much as $15,000,000. For the second accounting period, the taxes for which are payable during this year, we estimate that the amount collected will be much larger—in fact, as high as $20,000,000, or more. The increase will, of course, be due to the business prosperity which has prevailed in Canada during the past year and the profits made in supplying munitions of war. On the whole, notwithstanding the difficulty of organizing on short notice the official machinery necessary to cover so large a country as Canada, the tax has worked out much more satisfactorily than we expected, and the total results will be much greater than the estimate.

I have said that the total income of the past fiscal year was $232,000,000. Leaving aside for the moment our direct war expenditure, our outlay for the past year was upon ordinary account $145,000,000 and $27,000,000 upon capital and subsidy account, or a total of $172,000,000. It is to be borne in mind that of our ordinary expenditure $25,000,000 represents increased interest and pension charges due to the war. Taking our total revenue at $232,000,000 and our total current and capital expenditure at $172,000,000, we find that during the past fiscal year we were able to pay from our income all current and capital expenditure, all charges of interest upon our increased national debt, all pension outlays, and in addition devote the sum of $60,000,000 to payment of the principal of our war expenditure. For a country such as Canada, of sparse population and without the conditions of long-established and concentrated wealth prevailing in older and more settled communities, the result must be regarded as extremely satisfactory.

Coming next to the question of our direct war expenditure, we find that with our increasing military effort it also is continually increasing. Since the beginning of hostilities our total war outlay, including estimated and unadjusted liability to Great Britain for the maintenance of our troops at the front and inclusive of withheld pay, totals, so far as we can calculate,

about $600,000,000. As the result of this large war expenditure, the net national debt of Canada, which was $336,000,000 before the outbreak of war, has risen to over $900,000,000, although this will not be shown by our official statements for some months to come. By the end of the present fiscal year it may reach $1,200,000,000.

From the beginning it has been clear that it would not be possible for the people of Canada to pay, during the war, more than a part of the principal of our war expenditure. The policy of the Government has therefore been directed along two main lines: first, to fund the war indebtedness so as to postpone its maturities to periods well beyond the end of the war, and secondly, by increased taxation on the one hand and the reduction of current expenditure on works on the other to be in a position to meet from annual income all annual outlays including increased interest and pension charges and in addition a substantial amount of the war expenditure itself.

In order to carry out this programme it will be necessary, as our war expenditure, and consequently our interest and pension charges increase, to increase also our income. This raises the question of the sources of revenue still open to us. A higher customs taxation upon luxuries has been frequently suggested, but this proposal overlooks the fact that most articles of this character are embraced under fixed rates in the treaty with France, and the tariff cannot therefore be raised in respect of these. Apart from this we should hesitate at a time when France needs the advantage of all her sales on this side of the Atlantic to assist her exchange, to place a prohibition or increased duty against importations from our great Ally.

Then it has been frequently suggested that following the example of Great Britain and the United States, we should adopt an income tax upon all incomes beyond, say, $1,000 or $2,000. The comparison in this regard, however, of Canada with either of these countries is fallacious. We are not a country of large accumulated wealth and of incomes derived from investments. Canadian incomes are derived mostly from personal earnings, and while there are many exceptions, the rule prevails generally throughout the Dominion. So far as I am aware the incomes of the professional and salaried classes throughout Canada have not materially increased since the

outbreak of the war. In the case of many they have actually declined. This being so, it does not seem equitable to impose upon these the burden of an additional income tax—for they are taxed now upon their incomes by municipalities and provinces—at a time when owing to the war the cost of living has so greatly increased. If such a tax is to be imposed, it seems to me that so far as the great majority of Canadians are concerned, it might better be levied in time of peace, when the cost of living is again normal. It is further to be pointed out that the maximum amount which would be obtained from such a tax in Canada would in terms of Dominion finance be comparatively small and that its administration would require almost a second Civil Service sufficient in number to cover every municipality, rural and urban, throughout the Dominion. The cost of levy and collection of such a tax would be much higher proportionately than in a geographically small, wealthy, densely populated country like Great Britain or than in the United States, which although of the same area as Canada has twelve times the population and much more than twelve times our wealth. On the whole it would appear to me that the income tax should not be resorted to by the Dominion Government until its necessity becomes clearly and unmistakably apparent notwithstanding the drawbacks which I have mentioned. In connection with this tax it is also to be observed that the larger incomes in so far as they are not personally earned are derived in part from holdings in joint stock companies already subject to taxation under the provisions of the Business Profits War Tax Act. It must also be remembered that the Canadian public are voluntarily supporting the Canadian Patriotic, Red Cross, and other funds. The amount contributed annually to these funds is much in excess of the amount likely to be realized from any income tax. It is true that some wealthy men do not contribute their fair share to these funds. But this would also be true in any scheme of income taxation especially with issues of Dominion bonds exempt from Dominion taxation.

The question of further revenue then narrows down to abnormal profits made by business firms during the period of the war and this in my view is the proper and legitimate source to which to look for increased revenue to meet the increased

cost of the war. If a business is making, in war time, profits above the normal, they must be due to the abnormal conditions created by the war, that is to say, such a business is deriving advantage from the war. It follows that it may properly be required to contribute a share of such profits to the Government for the purposes of the war. I do not see, Mr. Speaker, that it makes much difference whether the business in question is the making of munitions or of any other class. Munitions are needed and no discredit attaches to the enterprise which provides them. The steel company which engages in the production of munitions could in most cases make as much if not more money by selling its steel products in world markets. Moreover, it would be inequitable to discriminate against the firm which makes a profit upon the finished article known as munitions and leave untaxed the profits (it may be equally large) of those firms which manufacture and supply the raw material or partly manufactured products from which they are made, or the businesses throughout the country which make abnormal profits from the distribution of money expended by Governments in payment for such munitions. If higher profits are made in the manufacture of munitions the higher the tax taken under business profits legislation.

In accordance with the principle which I have enunciated the Government last year imposed the Business Profits War Tax. Under that legislation profits in excess of a certain percentage upon capital invested were taxed to the extent of twenty-five per cent of such excess. This measure has proved quite successful, not the least of its merits being the small cost of its administration which will probably not exceed one-half of one per cent upon the amount collected. In view of the increasing interest and pension charges due to the war and believing this to be the true source to which recourse should now be had for further revenue, we propose to extend this tax by taking an increased share of profits.

We propose to take from persons, firms and companies liable to the Business Profits War Tax Act, 1916, fifty per cent of all profits in excess of 15 per cent but not exceeding twenty per cent per annum and seventy-five per cent of all profits in excess of twenty per cent per annum upon capital. That is to say, up to fifteen per cent they will be liable to the

existing legislation and in addition we shall take one-half of their profits between 15 per cent and 20 per cent and three-fourths of their profits beyond 20 per cent. The increased tax will chiefly affect manufacturers of munitions and other war supplies. While the percentage of excess profits which is taken is large, sufficient is left to provide incentive to effort on the part of all subject to the tax.

The new legislation will apply to the last accounting period of the three year term provided for in the Business Profits War Tax Act, 1916, namely, to all accounting periods ending after December 31, 1916. I am unable to estimate what amount will be derived from this taxation as it will depend upon the condition of business during the year. It will however give us without doubt a very substantial additional revenue.

Before leaving the question of taxation, I desire to say that the measures we have adopted have necessarily broadened in their scope as the war has progressed. No one has at any time been able to forecast the length of the war. It has now lasted nearly three years and the end is not yet in sight. Should another year be added to its duration with the consequent increase in our financial burden new sources of revenue must undoubtedly be sought. In seeking for these it should, I am sure, always be kept in mind that Canada has been in the past and will likely be for many years in the future a country inviting immigration and capital to develop its resources and contribute to its prosperity. Especially should we in considering taxation measures for the period following the war keep in view the desirability of the flow of settlers and capital to Canada not being retarded through fear on their part of heavy Federal taxation.

CANADA'S WAR LOANS.

The question of our financing since the last Budget was fully explained and discussed in the first part of this session. During the recess we successfully floated the third Canadian War Loan, an issue of $150,000,000 five per cent, twenty year bonds at 96. The public response was most gratifying, the issue having been oversubscribed to the extent of about one hundred million dollars. The proceeds of this loan will enable us to finance both ourselves and the Imperial treasury in

respect of expenditures in Canada until June. It is my present intention to arrange then for an issue of notes or treasury bills and if conditions are favourable offer another war loan in the early fall.

Since the outbreak of war we have floated in Canada domestic loans aggregating $350,000,000 and have in addition furnished $150,000,000 through our chartered banks to the Imperial treasury to meet its commitments for munitions and supplies purchased in Canada. Everywhere, I believe, this is regarded as a very notable achievement on the part of Canada. It has not only made possible our participation on a large scale in the war, but it has in greater measure than we realized brought about the present state of prosperity in the Dominion. Without the aid afforded by the savings of our people the expenditures which have been made in Canada by both Governments for supplies and munitions could not have been made, so that those who have saved have benefited not only themselves but the entire community. While our national saving during the war has been gratifyingly large, it is not so great as it should have been, and to-day no better advice can be offered to the public than to exercise the strictest thrift and economy. Every additional day the war lasts makes this individual and national duty the more imperative.

CANADA'S TRADE 1916-17.

No aspect of our affairs during the war is more striking than the vast increase which has taken place in our international trade. The aggregate of our imports and exports (excluding coin and bullion) for the fiscal year 1912 was $841,000,000; for 1913, $1,063,000,000; for 1914, $1,090,000,000; for 1915, $958,000,000; for 1916, $1,309,000,000. For the year ended on March 31 last, the total international trade of Canada reached the enormous total of $2,043,000,000.

Mr. MICHAEL CLARK: Would the minister kindly give us a statement of the exports and imports?

Sir THOMAS WHITE: If my hon. friend does not mind, I would prefer to give them in committee. I have them here, but I cannot conveniently lay my hand upon them. This, Mr. Speaker, is nearly double the volume of the largest

trade in the history of Canada before the war. Equally notable with this huge increase in volume is the change which has taken place in relative amounts of imports and exports. For 1912, the balance against us was $125,000,000; for 1913, $309,000,000; for 1914, $180,000,000; for 1915, $36,000,000. For 1916, we had for the first time in many years a favourable balance of $249,000,000. During the last fiscal year this favourable balance increased to $314,000,000. Figures such as these indicate a very prosperous condition within the Dominion. It must however be steadily kept in mind that the higher prices obtainable under war conditions for our national products and the output of our industrial plants of war supplies and munitions are chiefly responsible for this extraordinarily favourable condition of our external trade, and that with the cessation of the war dislocation of industry and modification of prices are bound to ensue. I take it that it is unnecessary for me to mention the large increase in our exports due to our grain and other commodities sent abroad by us and the high prices which have been and are being obtained for them. I said that, with the cessation of the war, dislocation of industry and modification of prices are bound to ensue. The only safeguard against these conditions is saving on the part of all who are now engaged at good wages and are in a position to save and the careful husbanding of their resources by firms and companies engaged in business. The position of most businesses in Canada is now thoroughly sound, and it is for their proprietors, with the prudent watchfulness of their bankers, to keep them in that condition. The sources of danger to business in war time are speculation in commodities and stock exploitation on the exchanges. With these avoided and national savings greatly increased we might look forward with confidence to whatever may occur in the reconstruction period after the war.

We have no tariff changes to propose.

To carry out the taxation proposal which I have announced and certain necessary amendments to the Business Profits War Tax Act, 1916, I beg to give notice of the following resolution which I shall move in committee:—

Resolved, That it is expedient to amend the Business Profits War Tax Act, 1916, by providing:—

1. That in any business taxable under the Act where the annual profits exceed fifteen per centum per annum the tax shall be increased to fifty per centum with respect to all profits in excess of the said fifteen per centum but not exceeding twenty per centum per annum, and where the profits exceed twenty per centum per annum the tax shall be increased to seventy-five per centum with respect to all profits in excess of the said twenty per centum, and such increases in the tax shall be levied against and paid by the person owning such business for each and every accounting period ending after the thirty-first day of December, one thousand nine hundred and sixteen;

2. That for the purposes of the said Act, the actual unimpaired reserve, rest or accumulated profits held at the commencement of an accounting period by an incorporated company shall be included as part of its capital as long as it is held and used by the company as capital;

That any enactment founded on this resolution shall be deemed to have come into force on and from the eighteenth day of May, one thousand nine hundred and sixteen;

3. That the tax shall be paid each year within one month from the date of the mailing of the notice of assessment;

4. That with respect to every business liable to taxation hereunder the period for which the returns shall be made and during which it shall be liable for assessment shall be at least thirty-six months, commencing with the beginning of the first accounting period ending after the thirty-first day of December, 1914, or for such less period as the business may have been carried on from the beginning of the said accounting period to the end of the period for which the said tax may be levied under the said Act.